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MR. T. E. REILLY - INDRLS.

St. Louis Park

Mr. H. L. Finch

October 10, 1969

WHEELER LUMBER BRIDGE & SUPPLY COMPANY

In order to appraise the Wheeler Lumber Bridge and Supply occupancy of plant property and buildings, some past history will be reviewed. And, as you refer to Mr. Mc Adam's letter of October 14, 1968, Mr. G. A. Reilly did not request any comment nor were the points of the letter discussed as such. Mr. G. A. Reilly must have discussed Mr. Mc Adam's letter but no mention was made of his thoughts other than he felt that the property could not be sold for the tax market value.

Following Mr. Mc Adam's letter of October 14th, we refer to the new warehouse structure. The agreement of September 12, 1966 specifically spells out that we will execute a net lease and that Wheeler would be responsible for the real estate taxes. Under this letter the taxes should not be a subject for negotiations and an invoice for the 1967 taxes payable in 1968 will be issued upon receipt of your authorization to proceed.

The 1968 taxes payable in 1969 have been paid under protest and, therefore, may be subject to some adjustment if invoiced now. But, a regular time to invoice Wheeler for the taxes attributable to the warehouse should be set. This can be done at the time of receipt of the tax statement or, since we have proceeded this far and have not invoiced Wheeler for the taxes it may be well to consider the month of October for the tax invoicing month. Wheeler can be invoiced for the taxes at the same time as the taxes are paid from Indianapolis for those taxes due in 1968 payable in 1969. Can it be programmed so that St. Louis Park will receive advice on the amount of taxes that are to be invoiced Wheeler each year? Upon your advice we will invoice Wheeler for the 1968 taxes.

Pole Barn and Additions - The subject of our rental agreement for buildings at St. Louis Park has a long history. From the information available the first rental agreement came with the charge to Wheeler of \$100.00 per month for the use of the old warehouse. At this time Wheeler needed a building in which to manufacture wooden culvert. The wooden culvert would be treated and, therefore, was of an advantage to us. The rental to Wheeler was increased to \$130.00 per month when Wheeler wished to occupy the wooden structure attached to the warehouse for the manufacture of snow fence. Attached is a copy of my letter to Mr. G. A. Reilly of September 18, 1962. It was at this period

001266

Mr. T. E. Reilly (Page 2)

that Mr. G. A. Reilly took over the negotiations with Wheeler resulting in his letter of October 30, 1962. Mr. G. A. Reilly's letter of October 30, 1962 has been the basis for our invoicing the \$300.00 per month for the Wheeler occupancy of the old warehouse and the Twin City Engineering Company pole structure. Several times the subject of entering into a formal lease was brought up and on December 27, 1967 I wrote Mr. Reilly and suggested that, upon development of a lease for the new warehouse, we incorporate all our understandings in one agreement. Mr. E. J. Boyle was quite interested in this subject and made periodic followups about Wheeler.

There is room for negotiations of the amount possibly due us as the result of our agreement set out in Mr. G. A. Reilly's letter of October 30, 1962. The five year agreement covered the use of the old warehouse and the use of the pole structure known as the Twin City Engineering building for a rental charge of \$300.00 per month. Official occupancy of the new warehouse began March 1, 1967 and the use of the old warehouse was discontinued. From the footage of the old warehouse and the utilization of the warehouse as compared to the pole structure of the Twin City Engineering's building, it would seem that \$100.00 per month for the pole structure and \$200.00 for the warehouse occupancy could have been a conceivable split in 1962. Therefore, from March of 1967 to the end of the lease November, 1967 or eight months using the \$200.00 figure could be looked at as a \$1,600.00 overcharge.

Since we have continued to invoice Wheeler for the \$300.00 a month and they have honored the invoice, some agreement does exist, but we may have two different opinions on what the \$300.00 a month covers. It seems that the idea of what is fair and what is not fair has to be agreed upon after the presentation of our side and the consideration of their side.

Yard Storage - While the subject of rental charges for the yard area Wheeler occupies has been discussed no agreement has been set out for any specific area. With the city tax program on open land consideration to what area Wheeler occupies must be given. In accordance with the program set forth, Mr. Keprios and Mr. Barton surveyed the land area occupied by Wheeler Lumber Bridge and Supply. The total area is approximately 25 acres. The total area occupied by Wheeler is not too much different than they have occupied for a good number of years. The character of their occupancy has changed however. They formerly utilized more area than they do now for the storage of untreated lumber. They have consolidated their untreated storage as a result of lift truck

301267

Mr. T. E. Reilly (Page 3)

handling. We no longer treat any fence posts for Wheeler but Wheeler occupies approximately the same area (locations have changed) for the storage of steel, penta pine poles and creosoted piling treated by others.

Of the total acreage, the area from which we receive no direct benefit encompasses approximately 302,809 square feet (7 acres). The area that we do receive revenue from, in the form of treatment, comprises approximately 557,518 square feet (12 acres). The shop area consisting of Wheeler's yard office, garage, shed storage and new warehouse equals 60,500 square feet (1 $\frac{1}{4}$ acres). Undefinable storage such as truck parking and miscellaneous items equals approximately 27,500 square feet ($\frac{1}{2}$ acre).

Another rather large area comprising approximately 137,950 square feet that is located in the extreme north central portion of the plant property is intermittently occupied by Wheeler. This area contains what has been constructed as miscellaneous items of possible salvage value such as car staves, broken piling, used cable and items of odd lumber. The area itself cannot be fully utilized for extensive storage as there are trees at this location and the ground surface would have to be prepared to be utilized more fully. It is quite possible that Wheeler may wish to vacate this portion should they receive charges for it's occupancy.

In summary the area occupied by Wheeler is as follows.

1. The area from which we receive treatment or the area which is necessary for performing the services on the material to be treated comprises approximately 557,518 square feet.

A. Untreated lumber storage	80,125 sq. ft.
B. Creosoted lumber storage	317,820 sq. ft. *
C. Lumber framing area	23,755 sq. ft.
D. Untreated piling	45,500 sq. ft.
E. Creosoted piling	70,000 sq. ft.
F. Culvert stock treated	20,318 sq. ft.

301268

Mr. R. E. Reilly (Page 4)

2. The area from which we receive no direct benefits as a result of treatments comprises approximately 302,809 square feet.

A. Penta treated round stock and creosoted S.Y.P. piling	154,438 sq. ft.
B. Untreated lumber sold untreated	39,063 sq. ft.
C. Steel for guard rail use	86,183 sq. ft.
D. Pine guard rail posts	20,000 sq. ft.
E. Plywood	1,875 sq. ft.
F. Pine cross ties	1,250 sq. ft.
3. Shop area containing buildings and shed	60,500 sq. ft.
4. Miscellaneous area	27,500 sq. ft.
5. Miscellaneous area of salvagable material	137,960 sq. ft.

The total area now occupied by Wheeler in varying degrees encompasses approximately 1,086,307 square feet or 24.9381 acres.

- * Their biggest expansion in use of space has been in the extreme northeast of our yard. This area was not utilized prior to 1962 and was more or less a dumping area and quite unsightly. Wheeler wanted to expand and change the method of handling their treated lumber for storage. During rush seasons we were having difficulty in keeping up with the required treatment and Wheeler was having difficulty framing the material fast enough to supply customers. We wanted to encourage them to treat items for stock more during the winter months and they wanted to be able to frame and treat during the winter months, orders that they had received but did not require delivery until spring. These orders framed during the winter needed to be kept separate for ready identification and to do this more space was required at a given volume. Also, we were interested in moving Wheeler's treated lumber storage from Coke 7 to give us room for expansion in an area closer into our facilities. We then developed an agreement whereby Wheeler would grade and remove the debris from the area in the northeast corner and this area would then be utilized for their storage of their treated lumber. It

301260

Mr. T. E. Beilly (Page 5)

is recalled that considerable more expense on Wheeler's part was necessary to bring this yard into shape than originally had been anticipated but the area is performing the function they required. There is a very inefficient use of space for volume of lumber and it is questionable rather an operation can afford this type utilization at present day taxes.

One possible approach to the rental charges to Wheeler would be to consider the area we may need to replace the business given to us by Wheeler. In considering the lumber business developed by Wheeler from the state, county and general contractors in the area, this is the only additional lumber business available and, therefore, much of the same area would be needed in order for us to handle this business direct. It might also be considered logical that the 60,500 square feet of shop area and miscellaneous storage of 27,500 square feet comprising a total of 88,000 square feet would be needed in proportion to the land area now utilized for products that are to receive treatment against the area utilized from which no treatment is received (557,518 square feet equals 65% of the 88,000 square feet or 57,200 square feet resulting in a total of land area utilized for treated products of 614,718 square feet). The 614,718 square feet could be considered to be supported by the cubic feet offered for treatment by Wheeler. Averaging the cubic feet for the last five years would give us 353,165 cubic feet per year including the lumber and piling treated at St. Louis Park by Wheeler Lumber Bridge and Supply.

$614,780 \text{ sq. ft.} + 43,560 \text{ sq. ft.} = 14.11 \text{ acres}$

$78.06 \text{ acres (total property)} + 14.11 \text{ acres} = 18.07\%$

$18.07\% \times \$60,000.00 \text{ (estimated taxes on land)} = \$10,842.00$

$\$10,842.00 + 353,165 \text{ (cu. ft. per year)} = \$0.0306 \text{ per cu. ft.}$

$18.07\% \times \$11,839.00 \text{ (taxes attributed to land before increase)} = \$2,139.30$

$\$2,139.30 + 353,165 \text{ cu. ft.} = \$0.0067 \text{ per cu. ft.}$

$\$0.0306 \text{ per cu. ft.} - \$0.0067 \text{ per cu. ft.} = \$0.0239 \text{ per cu. ft.}$

(Reducing \$.0239 to a board foot basis we will round off at \$.0200 per thousand board feet.)

1001270

Mr. T. E. Reilly (Page 6)

Following through on the area from which we receive no direct benefit comprising 302,809 square feet, we would add 35% of 88,000 square feet (area occupied by shop and miscellaneous storage) which would equal 20,800 square feet giving a projected total of 323,609 square feet. The tax portion of this area again based on Mr. McAdam's figure of \$60,000.00 would be.

$$323,609 \text{ sq. ft.} + 43,560 \text{ sq. ft.} = 7.429 \text{ acres}$$

$$7.429 \text{ acres} + 78.06 \text{ acres (total property)} = 9.52\%$$

$$9.52\% \times \$60,000.00 = \$5,512.00 \text{ (rental charge)}$$

There is trackage that serves this area and, therefore, we should recoup a portion of the trackage expense. To be reimbursed for some of the taxes levied on the rails we consider Mr. McAdam's estimate of approximately \$25,000.00 to \$30,000.00. In calculations we use the \$25,000.00 figure as follows.

$$9.52\% \times \$25,000.00 = \$2,380.00$$

$$\$2,380.00 + \$5,512.00 = \$7,892.00$$

There is also repair and maintenance of truck that service the area not being of particular benefit to us. As an estimate we would say that \$15,000.00 a year could be considered for repair and maintenance of truck and by using the same basis would work out as follows.

$$9.52\% \times \$15,000.00 = \$1,428.00$$

$$\$1,428.00 + \$7,892.00 = \$9,320.00$$

The rental charge for the area that is no direct benefit to St. Louis Park with regard to treatment is.

$$\$9,320.00 \div 323,609 \text{ sq. ft.} = \$777.00 \text{ per month}$$

The third area of 137,980 square feet is an area that Wheeler could vacate and is an area that must be improved to be utilized to any greater extent than it now is. From the plant standpoint, this area would be better off cleaned up and not used than the way it is now. To encourage Wheeler to vacate this area or to improve it, a charge for the area should be made. As a possible suggestion, Wheeler could be asked to pay for 35% of the taxes on this area.

Mr. T. E. Reilly (Page 7)

Again basing on the \$60,000.00 figure for land taxes we would proceed as follows.

$137,980 \text{ sq. ft.} \div 43,560 = 3.1675 \text{ acres}$

$3.1675 \text{ acres} \div 76.06 \text{ (total plant)} = 4.05\%$

$4.05\% \times \$60,000.00 = \$2,430.00$

$35\% \times \$2,430.00 = \70.00 per month

To comment briefly on Mr. Mc Adam's point contained on page 4 of his letter.

1. The value of land - As far as the return on occupied land some consideration of the appreciation of the land could be taken into account. With the increase in the value of land as per the tax valuation, fixed assets would have increased considerably. The land value at St. Louis Park has increased considerably since building the plant in 1916 and I am sure that there are those land experts that would consider such a rate of increase in the next fifty years as not being too much to expect.

(3) Mr. Mc Adam's point (3) must also take into consideration Koppers Company at Superior. Koppers at Superior has shipped creosote oil to Cass Lake in the last year. It is known that Koppers has been working very hard to regain some of Wheeler's business that they lost from Wheeler when Wheeler moved from Superior to Cass Lake. The bad feelings have healed somewhat and Koppers has been supplying Wheeler with a good deal of promotional devices. As explained to me by Mr. Hoak, they have had occasion to take a truck load or two of creosote oil from Koppers' plant at Superior. A haul from Superior to Cass Lake is a shorter and faster haul than a haul from St. Louis Park.

5. With regard to the charge to Wheeler of \$46.40 per thousand for a 10 lb. treatment this price is related to the whole Wheeler agreement. The price of \$45.40 has been competitive which must be a consideration. It has been our intention not to increase our price so that we would be at a competitive disadvantage with such people as Wycoff at Seattle or Broderick at Denver. Wheeler Luther Bridge and Supply does business with both of these concerns for material going mainly into beam and for material

Mr. T. E. Reilly (Page 8)

being delivered between St. Louis Park and the west coast. On occasion Wheeler has brought in treated Douglas Fir from Wycoff to supply their orders. Another competitive point is Wheeler's own plant at Cass Lake and this is a very real situation when we consider that we desire to retain the steady volume given to us by Wheeler over the years.

As an analysis of Wheeler's price of \$46.40 first we will remove the oil price for 10 lbs. at 24¢ per gallon which will give us a treating figure of \$24.34 per MFBM.

The Wheeler price covers only treatment, there are no handlings to yard or from yard, there is no incising of the material and there is no loading of cars, etc.. In comparison we present that our current treatment price of \$32.00 per MFBM includes the unloading of a car of lumber to the incisor, the incising, the treatment and reloading of the treated lumber to car. As a test of this \$32.00 per MFBM price, we know that we have not been able to sell any large volume of creosoted lumber on the east coast, utilizing the \$32.00 price even when considering a 24¢ creosote oil.

Looking further at the best business we have as far as lumber treatments which is that of Chicago & Northwestern, a 10 lb. pure oil price would amount to \$51.32. This price includes the unloading of the car to train, the treatment, creosote oil and the reloading of the treated material to cars. Breaking down the price of \$51.32 and taking out \$22.16 at 24¢ oil will give us a charge of \$29.16 per thousand. At roughly a \$5.00 per thousand difference between the Chicago & Northwestern and the Wheeler Lumber Bridge and Supply, two handles cannot be performed for \$5.00 per thousand. Not going further it is our contention that the Wheeler price is in the ball park. Now we have a change in the game and change in price is indicated.

An overall sales picture must be considered when looking at plant operations. There is a danger in isolating one particular aspect without considering its relationship to the whole. The procedure on pricing seems to lead to the determination of a desirable price, the determination of a price below which the business should be refused and what price the market will pay.

In summary, it is suggested that Wheeler be approached to increase our return to a more satisfactory basis as follows.

1. Prepare an invoice to cover the taxes due on the new warehouse for the years 1967 and 1968 in accordance with

301273

Mr. T. E. Reilly (Page 9)

Mr. G. A. Reilly's letter of September 12, 1966 and Mr. Reilly's letter, signed by me of December 26, 1967.

- 2. Set up a lease agreement for a period of 15 years from March 1, 1967 to cover:**
 - A. Concrete block building (new warehouse) 50 feet by 200 feet constructed in 1966. The warehouse is located in the extreme east corner of the plant property where the plant property joins the intersection of the Second Street Northwest and vacated Gorham.**
 - B. The pole type metal clad structure (Twin City Engineering Building and attached concrete block addition of approximate size 30' x 100'.**

The building is located about 50' from the west side of the warehouse previously described and is laying at an angle of about 30° to that side of the warehouse building.

The lease would include the rental sum of \$370.46 per month together with any increases in real estate taxes payable during the term of the lease attributed to the leased buildings over such taxes payable in 1962 for 1961.

- 3. A property lease could be developed to be written for a period of five years automatically renewable for another five years unless cancelled in writing ninety days prior to the five year expiration date. It is recommended that a cancellable clause be included to the effect that the lease can be terminated upon agreement of both parties.**

- A. The lease would include the property now occupied at St. Louis Park plant at 7200 Walker Street Northeast with description of the property being occupied. The property would be a subject of agreement between both parties as a result of negotiations.**
- B. Agreement to be reached on price for the rental of the occupied property. (suggest a month price of \$840.00 per month)**
- C. Escalation to be included for future increases in taxes.**

Mr. T. E. Reilly (Page 10)

4. Establish a new price agreement for the treatment of creosoted products at St. Louis Park

A. Negotiate a new price.

1. Suggest a \$2.00 per thousand increase on the treatment of lumber and a 2 1/2¢ per cubic foot increase on the treatment of piling.

2. Include a description of the property to be occupied in conjunction with the treating agreement.

B. Provide a time limit and renewable clause.

Some points in the foregoing will need expansion and discussion and the opportunity would be appreciated to discuss a possible proposal with you. Should the R.T.A. Convention not go forward on the week of October 20th, it would work out well for us to visit Indianapolis at this time.

Yours very truly,

H. L. Finch

HLP:gc

cc: Mr. T. J. Ryan - Indpls.

301275